



# **Environmental and Social Management System**

2025

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## 1. Definitions and Abbreviations

Bank - "EVOCABANK" OJSC,

Client - a legal entity or sole proprietor who uses the services offered by the Bank, has applied for the latter, or has not applied, but is a potential borrower for the Bank,

RA - Republic of Armenia,

Project - Credit applications from clients that are reviewed by the Bank,

E&S - Environmental and Social,

ESMS - Environmental and Social Management System,

ESIA - Environmental and Social Impact Assessment

ESAP - Environmental and Social Action Plan

GRM - Grievance Redress Mechanism

## 2. Introduction

Evocabank is committed to promoting sustainable development and responsible Banking practices by integrating E&S considerations into its operations. The Bank recognizes the potential impacts of its business activities on communities and the environment. To mitigate the impacts, the Bank has developed this document to systematically identify and manage E&S risks associated with its financing and investment activities. The ESMS is a practical guide, which helps the Bank recognize risks and opportunities related to E&S issues, integrate sustainability into its core operations and align with national regulatory requirements and international best practices.

## 3. ESMS Overview

The ESMS helps to identify any possible E&S issues in financed projects, monitors how mitigation measures are implemented and resolves any issues during project execution. It ensures that negative impacts are minimized, while positive outcomes are promoted. Through the ESMS, the Bank aims to enhance transparency and accountability demonstrating its role as a responsible financial institution dedicated to sustainable development.

The ESMS has three main components:

- E&S Policy
- E&S Standards
- Due diligence, which includes:
  - i. risk screening and categorization
  - ii. assessment and monitoring,
  - iii. stakeholder engagement and grievance response mechanism.

## 4. E&S Policy

This policy reflects the dedication to identifying, assessing, and managing ES risks and opportunities throughout the operations and financing activities. It applies to all lending and investment activities undertaken by the Bank, including corporate and SME lending, trade finance, and project finance. It covers the entire credit lifecycle – from origination

to exit and monitoring – and applies to all staff, clients, and third-party agents engaged in these activities.

### *1) Environmental Commitments*

The Bank will:

- Ensure compliance with all applicable national environmental laws and regulations.
- Promote efficient resource use (including energy, water, and other resources).
- Support actions to reduce greenhouse gas emissions (GHG) and mitigate climate risks.
- Prevent or minimize the release of pollutants into air, water, and soil.

### *2) Labor and Working Conditions*

The Bank requires that its clients and partners:

- Ensure fair working conditions.
- Prevent harassment, abuse, and gender-based violence in the workplace.
- Implement effective worker grievance mechanisms, if necessary.
- Prohibit child labor and forced labor.

### *3) Community Health, Safety, and Security*

The Bank promotes the safety and well-being of communities affected by financed projects by requiring clients to:

- Assess and manage community health and safety risks.
- Prevent involuntary resettlement and incidents affecting surrounding communities.
- Establish grievance mechanisms to address E&S complaints.

## **5. E&S Standards**

To ensure the effective implementation of the Policy and compliance with all relevant E&S requirements, the Bank adopts and applies the IFC Performance Standards, which align with international best practices and are widely used among other donors. The relevance of each standard depends on the project's nature and scale. When projects involve donors or investment funds, the Bank may apply their E&S Standards, with coordination to determine which standards take precedence.

## 6. ESMS Implementation Responsibilities

ESMS requirements are integrated into the Bank's risk management procedures. Responsibilities are divided between the Bank and the clients, as outlined below:

### 1) *Bank Responsibilities*

By following the ESMS, the Bank demonstrates its commitment to managing E&S risks within the scope of each project. The Bank has established internal "**Environmental and Social Risk Procedure**", which defines step-by-step responsibilities, workflows, and tools to operationalize this ESMS.

The Bank is responsible for:

- Checking to confirm the project does not involve any prohibited activities listed in the Exclusion List.
- Defining the E&S requirements clients must follow during project implementation.
- Including E&S covenants in all financing agreements to ensure projects comply with RA laws and ESMS requirements.
- Conducting E&S Due Diligence as part of the appraisal process. This involves assessing and categorizing E&S risks and providing applicable action plans to mitigate any possible impact.
- Conducting regular monitoring, based on the project's E&S risk category.

Depending on the project and its risk category, due diligence may range from a basic review to a comprehensive review by a technical expert or consultant.

### 2) *Client Responsibilities*

Clients are responsible for:

- Demonstrating compliance with E&S requirements. If full compliance is not demonstrated, the Client shall implement and duly complete all measures specified in the ESAP as approved by the Bank.
- Ensuring appropriate engagement with stakeholders, including those directly or indirectly affected by the project.
- Within three (3) business days, notifying the Bank of any serious E&S incident that could have a material impact on its operations or communities.

## 7. Exemption List

Projects that involve only the following activities are exempt from full ESMS screening:

- Preparation and dissemination of knowledge products.
- Organization of capacity building activities, such as workshops and trainings
- Strengthening capacities of partners to participate in national and international policy processes.
- Partnership coordination and management of networks; and/or.
- Global/regional/national activities (e.g. activities such as knowledge management, inter-governmental processes) with no field-level activities.

These exemptions apply only if such activities represent the entire scope of the project.

## 8. Exclusion List

The Bank does not finance the following activities:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under CITES.
- Production or trade in weapons and munitions<sup>1</sup>.
- Production or trade in alcoholic beverages (excluding beer and wine)<sup>1</sup> with the resources of the financing organization. In case of financing with own resources, it should not exceed 5% of the loan portfolio.
- Production or trade in tobacco<sup>1</sup>.
- Gambling, casinos and equivalent enterprises<sup>1</sup>.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.

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<sup>1</sup> This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

- Production or trade in unbounded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- Production or activities involving harmful or exploitative forms of forced labor<sup>2</sup>/harmful child labor<sup>3</sup>.
- Commercial logging operations or purchase of logging equipment for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products. In case of financing with own resources, it should not exceed 5% of the loan portfolio.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
- Activities related to the coal sector.
- Activities that will lead to forced resettlement.
- Activities that involve significant risks or impacts on the environment, community safety, and health.
- Activities that negatively affect biodiversity and cultural heritage and lead to significant reductions.
- Activities that involve significant risks affecting safety and health during work.

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<sup>2</sup> Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

<sup>3</sup> Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

## 9. E&S Due Diligence

The Bank's due diligence process is conducted in accordance with the "**Environmental and Social Risk Procedure**" and includes project categorization, E&S assessment and monitoring, and stakeholder engagement including grievance redress mechanisms.

### *E&S risk screening and categorization*

- *Category A:* these are areas of activity that are likely to have significant adverse impacts, most of which are irreversible; can lead to loss of a major natural habitat, may affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or influence on significant cultural heritage sites. Projects in this category require full ESIA and development of ESAP to prevent or mitigate above-mentioned negative impacts.
- *Category B:* these are areas of activity that have a negative impact on E&S, but those impacts are not large and few of the consequences are irreversible. The project may result in specific environmental impacts, but these impacts are site specific and can be reduced mainly through well-designed measures. There is no forced resettlement in these areas of activity.
- *Category C:* the project is likely to have minimal or no adverse environmental impacts. In these areas of activity there is no forced resettlement or a negative impact on the communities. No further environmental assessment is required.

Projects in category B and C may or may not have ESAP based on the complexity and possible E&S impact.

### *Assessment and monitoring*

This is implemented for clients to follow the mitigation principles and to avoid potential impacts and risks. These can be accomplished through careful project design and diligent E&S risk screening.

- *Category A:* for Category A projects, monitoring is carried out semi-annually, with the support of an external expert, strictly ensuring that the ESAP is properly implemented within the established deadlines. For Category A projects, client visits are mandatory.
- *Category B:* for Category B projects, monitoring is conducted once a year. However, if an ESAP has been prepared, monitoring should take place within one month after the deadline defined in the action plan.

- *Category C:* for Category C projects, monitoring is conducted only if an ESAP has been prepared. Monitoring is carried out within one month after the ESAP deadline.

Monitoring frequency may be adjusted depending on project risk level and client performance.

### *Stakeholder engagement and grievance report mechanism*

Stakeholder engagement is an ongoing process that supports transparent and responsible management of E&S risks. The Bank engages with its own stakeholders (employees, clients, investors, regulators, and the public) to promote awareness of its E&S commitments and ensure continuous feedback and improvement.

In relation to financed activities, the Bank requires clients to maintain stakeholder engagement throughout the project life cycle. Early stage stakeholder engagement helps surface potential concerns and strengthens the project's responsiveness to affected communities and other stakeholders. The stakeholder engagement process includes:

1. Stakeholder identification and analysis
2. Plan on how to engage with stakeholders
3. Consultation with stakeholders

Stakeholder engagement measures should work pro-actively towards identifying and addressing issues before they become grievances. A grievance is an issue, concern, problem or claim that an individual or community group wants the client to address and resolve. This can include complaints about project impacts, damages, or operations. GRM considers all types of complaints, informs the stakeholders about the mechanism and resolves grievances on time. The Bank has established "**Customer Complaints Management Procedure**", through which the Bank receives the complaint raised by the customer, examines it and sends a response.

## 10. Annex

### *PS1 - E&S Risk and Impact Assessment and Management*

Focuses on the assessment and management of E&S risks and impacts. It requires clients to develop and implement procedure that enables continuous identification, mitigation, and monitoring of potential E&S issues. This standard establishes the need for stakeholder engagement, impact assessment, and regular performance review throughout the project lifecycle.

### *PS2 - Labor and Working Conditions*

Addresses labor and working conditions. It emphasizes the importance of fair treatment, non-discrimination, and safe and healthy working environments. The standard includes provisions on employment terms, prevention of child and forced labor, occupational health and safety (OHS), and access to grievance mechanisms for workers.

### *PS3 - Resource Efficiency and Pollution Prevention*

Deals with resource efficiency and pollution prevention. It encourages projects to use resources such as energy, water, and raw materials efficiently and to minimize emissions, waste, and hazardous materials. The goal is to reduce pollution and promote sustainable use of natural resources.

### *PS4 - Community Health, Safety, and Security*

Covers community health, safety, and security. It seeks to protect local communities from risks and impacts arising from project activities. The emphasis is on proactive risk management and emergency preparedness.

### *PS5 - Land Acquisition and Involuntary Resettlement*

Relates to land acquisition and involuntary resettlement. It ensures that when displacement is unavoidable, it is managed through a process that restores or improves the livelihoods and living conditions of affected people. The standard requires fair compensation, livelihood restoration, and stakeholder consultation during resettlement planning and implementation.

### *PS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources*

Promotes biodiversity conservation and sustainable management of living natural resources. It requires projects to avoid or minimize impacts on biodiversity and ecosystem

services, particularly in sensitive or legally protected areas. It also promotes sustainable practices in sectors like agriculture, forestry, and fisheries.

#### *PS7 - Indigenous Peoples*

Safeguards the rights of Indigenous Peoples who may be affected by a project. It mandates Free, Prior, and Informed Consent (FPIC) for projects that affect their lands or resources and calls for culturally appropriate development benefits. The standard emphasizes respect for indigenous rights and traditions.

#### *PS8 - Cultural Heritage*

Focuses on cultural heritage. It seeks to preserve both tangible and intangible cultural resources that could be impacted by project activities. This includes archaeological sites, monuments and sacred places. Projects are required to avoid or mitigate any adverse effects on cultural heritage and engage with relevant communities and authorities.